

RegFlex and secondary capital improvements proposed

The nation's federally insured credit unions may soon have enhanced regulatory flexibility under proposed rule changes issued in July to extend the Regulatory Flexibility Program (RegFlex) to include more institutions and provide low-income credit unions the ability to redeem uninsured secondary capital accounts.

"While NCUA is actively engaged with Congress on capital improvements requiring statutory changes, the NCUA Board today issued two important improvements the agency can achieve without legislative change," Chairman JoAnn Johnson said.

"I believe both proposals strike the right balance between regulatory flexibility and safety and soundness," said Board Member Debbie Matz.

"The RegFlex proposal is designed to ensure the agency's Regulatory Flexibility Program is available to all credit unions that demonstrate sustained superior performance in both net worth and their CAMEL rating, the agency's supervision tool measuring overall credit union performance," Chairman Johnson said. "I'm especially pleased that if this proposal is adopted many more small credit unions will be able to avail themselves of RegFlex benefits."

RegFlex Enhancements

"Under the proposed RegFlex rule change, 462 additional credit unions would automatically qualify for the NCUA Regulatory Flexibility Program, which would be based on a new minimum net worth requirement and sustained CAMEL code of 1 or 2 for two consecutive examinations," Chairman Johnson said.

Credit unions with 7 percent net worth are currently classified "well capitalized" under Prompt Corrective

Action (PCA). The proposal recommends the 7 percent net worth requirement also qualify credit unions for RegFlex, and the proposal requires credit unions to be "well capitalized" for six consecutive quarters. Currently, RegFlex requires a minimum 9 percent net worth.

"NCUA should not micro-manage well-managed institutions," the Chairman said, "and by lowering the qualifying net worth percentage this proposal would provide more options for a credit union and its members."

Credit unions that are unable to meet both the minimum net worth and CAMEL standards to automatically qualify for RegFlex, but that meet one of those standards, may apply to the appropriate NCUA regional director for RegFlex designation.

"The RegFlex proposal presents opportunities especially for small and mid-size credit unions," Board Member Matz said. "Nearly two-thirds of the credit unions that would gain eligibility for RegFlex exemptions are under \$50 million. And I invite commenters to consider other regulations that could qualify for a RegFlex exemption, providing they would have no negative impact on safety and soundness."

Secondary capital improvements proposed

The Board proposed changes to Section 701.34 to permit low-income designated credit unions to redeem secondary capital within five years of maturity.

This would prevent secondary capital that is no longer counted as net worth from remaining on credit union's books as an asset and diluting the net worth ratio.

"The Board proposal would permit low-income institutions to have the option to release the portion of a secondary

capital account that no longer counts as net worth," the Chairman said. "This significant capital improvement would allow low-income designated credit unions to have flexibility and potentially enhance their ability to serve by providing more capital options."

"The proposal is intended to ensure that otherwise healthy low-income credit unions do not incur PCA sanctions as a result of secondary capital," Board Member Matz pointed out. "While this is important for well capitalized credit unions, it is even more important for adequately capitalized credit unions, with net worth between 6 and 7 percent. For some of these credit unions, it is the discounted secondary capital that is pushing them below the 7 percent PCA threshold. So giving them an opportunity to redeem that capital will have the effect of immediately improving their net worth."

The amendment also recommends NCUA approve a credit union's plan for use of secondary capital before it offers such accounts. In the near future, internal guidance as well as an update to the *Examiners Guide* will provide additional guidance and assistance.

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News briefs

NCUA Risk Alert — The NCUA issued Risk Alert 05-02 on Phishing in July to offer guidance and encourage credit unions to continue to educate members about vital steps to take to combat phishing. Access the Alert at www.ncua.gov/letters/RiskAlert.html.

2006 appropriations — The House has approved NCUA funding for FY 2006 — \$1.5 billion for CLF borrowing authority and \$950,000 for CDRLF technical assistance grants to low-income designated credit unions until September 30, 2007. The Senate Appropriations Committee has passed the House bill, the full Senate has yet to act.

Net worth legislation — The House of Representatives passed HR 1042 June 13. The bill would allow NCUA to recognize pre-merger net worth of insured credit unions after FASB (Financial Accounting Standards Board) modifies accounting rules in 2007.

The NCUA Board is scheduled in September to review or consider the following —

- CUSO Investment Pilot Program
- Part 741.6 – Financial and statistical and other reports.

NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

JoAnn Johnson, Chairman
Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting 703-518-6330.

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Credit unions can tap into AFI grant training

Chairman JoAnn Johnson encourages credit unions serving low-income communities to attend one of the Assets For Independence training sessions the U.S. Department of Health and Human Services is offering at various locations in August.

“The HHS Assets For Independence (AFI) grant program is an excellent way low-income credit union members can begin to achieve sound financial footing, and I encourage credit unions to attend a training session to learn more,” Chairman JoAnn Johnson said. “The program enables credit unions to assist members grow their savings and turn dreams into reality through the combination of member savings in Individual Development Accounts (IDAs) and matching AFI contributions.”

Every dollar a low-income credit union member deposits in an IDA account at a participating credit union is matched with AFI funds at rates ranging from \$1 to \$8. After depositing funds into an IDA for six months or more, a typical participant accumulates more than \$4,000 (savings plus the match funds) to acquire a home, small business, or pay for education or training.

Credit unions are invited to attend an informational AFI program session, held concurrently with HHS Asset For Independence Training Academies, the following dates and locations:

August 16, 2005

9:30am - 12:00pm

Oakland Marriott City Center Hotel

1001 Broadway

Oakland, California 94607

(Training Academy runs August 15-17)

August 23, 2005

9:30am - 12:00pm

Renaissance Inner Harbor Hotel

202 E. Pratt Street

Baltimore, Maryland 21202

(Training Academy runs August 22-24)

August 30, 2005

9:30am - 12:00pm

Le Meridien Hotel

521 N. Rush Street at Michigan Avenue

Chicago, Illinois 60611

(Training Academy runs August 29-31)

Obtain additional information and access registration at www.acf.hhs.gov/assetbuilding. Contact the AFI program office at 202-401-4626 or e-mail afiprogram@acf.hhs.gov.



Washington, D.C. — NCUA Chairman JoAnn Johnson and Josephine Robinson, director of the Office of Community Services (OCS), U.S. Department of Health and Human Services (HHS), meet to discuss the HHS' Assets for Independence Program (AFI) grant program, which enables low-income designated credit unions to apply for AFI grants of up to \$1 million.

Board actions July 21, 2005

2005 mid-session budget adopted

The NCUA Board approved a \$1.68 million decrease in the agency's operating budget for 2005. The revised 2005 NCUA operating budget is \$146,320,454.

While the mid-session budget decrease is driven by retirements and vacancies, in April 2005 the agency's staffing level increased when the number

Mid-session budget adjustments

Employee Pay	\$ 89,368,676	86,474,485	\$ (2,894,191)	-3.2%
Employee Benefits	23,093,685	23,143,135	49,450	0.2%
Travel	12,818,897	13,120,961	302,064	2.4%
Rent/Communications/Utilities	3,930,100	3,926,029	(4,071)	-0.1%
Administrative	10,498,368	10,590,591	92,223	0.9%
Contracted Services	8,286,418	9,065,253	778,835	9.4%
Total	\$ 147,996,144	\$ 146,320,454	\$ (1,675,690)	-1.1%

of new hires surpassed the number of retirements and resignations.

The most significant increases approved at the 2005 mid-session budget review include:

- \$302,000 for travel expense increases.
- \$250,000 for legal and consulting fees to address new and emerging risks.
- \$200,000 for network consulting related to replacing employee computers. NCUA's current computer lease expires in January 2006.

RegFlex expansion proposed

The NCUA Board issued, with a 60-day comment period, a proposed rule change to Part 742 to enhance the Regulatory Flexibility Program (RegFlex). To automatically qualify for RegFlex under the proposed rule, a credit union must meet a new minimum net worth requirement and be rated a CAMEL code 1 or 2 for two consecutive examinations.

Credit unions with 7 percent minimum net worth are currently classified "well capitalized" under Prompt Corrective Action. This proposal recommends the 7 percent minimum net worth requirement also qualify credit unions for RegFlex. Currently RegFlex requires a minimum 9 percent net worth. Credit unions subject to risk-based net worth (RBNW) requirements

must maintain RBNW "well capitalized" standards.

The proposal also recommends credit unions qualify for RegFlex by maintaining 7 percent net worth for six consecutive quarters. This would negate any relative risk exposure by substantially extending the current one quarter minimum net worth requirement.

Secondary capital account amendments proposed

The NCUA Board issued proposed changes to Part 701.34 to strengthen the financial position of low-income designated credit unions by permitting them to redeem secondary capital within five years of maturity to prevent maturing secondary capital from diluting net worth when it remains booked as an

asset. The action will help low-income credit unions steer clear of related PCA requirements.

The proposed amendment also recommends NCUA approve secondary capital account plans before a credit union offers and redeems the accounts. Comments are due within 60 days of publication in the *Federal Register*.

In the near future, internal guidance as well as an update to the *Examiners Guide* will be providing additional guidance and assistance.

NCUSIF mid-year report

The National Credit Union Share Insurance Fund (NCUSIF) net income was \$30.2 million in the first six months of 2005, gross income was \$76.2 million, operating expense was \$38.2 million, and insurance loss expense totaled \$7.8 million.

Seven credit unions failed in the first six months of 2005. NCUSIF reserves totaled \$69.7 million, with an additional \$513,000 added during June to address specific problem credit unions. There were 281 problem, CAMEL code 4 and 5 credit unions at mid-year 2005 holding 1.04 percent of total insured shares.

The NCUSIF equity ratio declined to 1.25 percent based on projected June 30, 2005, insured shares of \$517.5 billion.

Determined by the rate of share growth and the amount of losses sustained, the equity ratio is expected to end the year at 1.27 percent.

Purchase and assumption proposal issued and comments requested on nonconforming investments

The NCUA Board issued, with a 60-day comment period, a proposed rule change to Part 741.8 that would clarify the scope of the rule and add an exemption specifying NCUA approval is not required for the sale or purchase of loans or other assets between federally insured credit unions (FISCUs). For purchase and assumptions that do require approval, the proposal adds a new subsection describing what a credit union should submit to the appropriate NCUA regional office.

In a related section, NCUA requests comments on a revision to Part 741.3, which would eliminate nonconforming reserves and require FISCUs to purchase only investments nationally recognized as "investment grade."

To protect the National Credit Union Share Insurance Fund, NCUA is soliciting comments on whether regulations should require FISCUs investing in CUSOs to comply with limits on the structure, accounting, audits, NCUA access, and corporate separateness addressed in rule sections 712.3 and 712.4.

Post-employment examiner restrictions proposed

The NCUA Board issued new proposed rule Part 796 to implement post-employment restrictions on certain NCUA "senior examiners." Based on recently enacted law, for one year after leaving, NCUA senior examiners cannot be employed at a credit union they had significant responsibility for examining during two or more months of their final 12 months with NCUA.

Issued by NCUA with a 60-day comment period, all four federal financial regulatory agencies have, or will soon be issuing, consistent, comparable proposed rules for senior examiners.

Votes are unanimous unless indicated.



Who and What: Chairman JoAnn Johnson will address the Defense Credit Union Council, Inc. 42nd Annual Conference.

When: Monday, August 22, 2005

Where: Charleston, S.C.

Why: To discuss regulatory issues affecting defense affiliated credit unions.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the Allied Solutions

Summer Networking Conference.

When: Monday, September 12, 2005

Where: Vail, Colo.

Why: To provide NCUA updates.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the Mid-States Corporate Federal Credit Union 2005 Financial Strategies Forum.

When: Friday, September 16, 2005

Where: Chicago, Ill.

Why: To discuss America's credit unions role in today's economy.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the NAFCU Congressional Caucus.

When: Monday, September 19, 2005

Where: Washington, D.C.

Why: To discuss issues affecting federal credit unions.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Board Member Debbie Matz will address the National Association of Federal Credit Unions' (NAFCU) Congressional Caucus.

When: Tuesday, September 20, 2005

Where: Grand Hyatt Washington, Washington, D.C.

Why: To focus on regulatory and legislative issues facing federal credit unions.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov

Who and What: Board Member Debbie Matz will meet with the Credit Union National Association Board during CUNA's Future Forum.

When: Saturday, September 24, 2005

Where: San Francisco Hilton, Calif.

Why: To discuss NCUA initiatives intended to protect the safety and soundness of federally insured credit unions and their members.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

GC opinion letter

The NCUA Office of General Counsel issues opinion letters interpreting agency regulations and policies in response to questions submitted. The summary of a recent opinion letter follows. Access all GC opinion letters on the NCUA website at www.ncua.gov/ref/opinion_letters/opinion_letters.html

05-0630 — Re: Insurance Coverage on 529 College Savings Plans — NCUA's insurance rule provides pass-through insurance coverage for state college savings plan accounts, consisting of share certificates or deposits, created under Section 529 of the Internal Revenue Code, provided the account owner is a member of a federally insured credit union where the account is maintained, and the account is properly titled.

NCUA is also considering adopting a new rule similar to the Federal Deposit Insurance Corporation (FDIC) interim final rule to allow pass-through share insurance for these accounts.



Visit NCUA's website
www.ncua.gov

NCUA continuously issues reports offering stakeholders a wealth of information. A few reports posted to the Internet in July include:

- June 2005 Insurance Report of Activity is available at <http://www.ncua.gov/ReportsAndPlans/delegated/Delegated.html>.
- January – June 2005 Multiple Common Bond Report is available at www.ncua.gov/ReportsAndPlans/MCBEReport/05JuneMCB.pdf.
- January – June 2005 Trade, Industry, or Profession Report is available at www.ncua.gov/ReportsAndPlans/TIPReport/Index.htm.
- January – June 2005 Community Charter Approvals report is available at www.ncua.gov/ReportsAndPlans/comm_charter_rpt/communitychartersreport.html.
- January – June 2005 Underserved Area Approved Report is available at www.ncua.gov/ReportsAndPlans/AccessAmericaRpt/AccessAmericaRpts.htm.



PALS workshop urges CUs to offer predatory lending alternatives

At the final Partnering and Leadership Successes (PALs) workshop, organized by Board Member Debbie Matz July 7 in Baltimore, Md., 250 participants from 25 states learned how to “Knock Out Predatory Lenders and Improve Your Bottom Line.”

Opening the workshop, Ms. Matz presented four compelling reasons why all credit unions should offer alternatives to predatory lending:

- 1) *“It is your statutory responsibility. The Federal Credit Union Act requires credit unions to provide affordable credit to people of modest means.”*
- 2) *“It is the right thing to do. When you say ‘Yes’ to borrowers, you help members break free of predatory lenders and turn lives around.”*
- 3) *“It is good business. When you combine small risk-based loans with financial education, borrowers become loyal members on firmer financial footing and do more business with you in the future.”*
- 4) *“It helps preserve credit unions’ tax exemption. I can’t think of a better way for credit unions to demonstrate that they fulfill a societal mission than to help the millions of people struggling in our society.”*

The first panel focused on “Confronting Predatory Lenders Head-On.” The first panelist noted that when credit unions offer alternatives to predatory lending, they may see higher delinquencies, but they should not see higher charge-offs.

“When you are dealing with people who live paycheck to paycheck, they will miss a payment if they get sick or lose their job – but they pay you as soon as they have the money,” explained Audrey Cerise, CEO of ASI Federal Credit Union in Harahan, La.

The second panel focused on “Beating Predatory Lenders at their Own Game.” Credit union leaders described financial education programs and special loans that empower former predatory lending victims to qualify for their first credit card, buy their first car, and purchase their first home.

The final panelist proved that credit unions of any size can offer effective alternatives to predatory lending. John DuPree, Jr., Treasurer of Shiloh of Alexandria Federal Credit Union in Alexandria, Va., described a creative public-private partnership that allows his volunteer-run credit union, with just \$1 million in assets, to offer a full range of mortgages to low-income residents who had been renting in public housing.

“Providing alternatives to predatory lending is an opportunity for all credit unions to

prosper. It’s up to us to do something about it,” DuPree said.

Throughout the day, workshop participants learned that for many victims of predatory lending, the most important service is a simple small loan.

“When you go home tonight,” suggested workshop co-host Mike Beall, president of the Maryland Credit Union League, “I challenge all of you to visit a predatory lender in your community. Walk in and ask for a \$250 loan. You will find people will give you the money in 10 minutes. Credit unions need to say ‘Yes’ more quickly to \$250 loans. Many borrowers probably need much more, but you have to get them in the door by making that first small loan.”

“These are services people want,” noted special guest speaker Tim Adams, Director of NeighborWorks America’s Mid-Atlantic District

in Baltimore. “Instead of fighting these services, find a way to offer these services better.”

Adams and luncheon keynote speaker Nelson Merced, Director of NeighborWorks America’s National Initiatives, shared programs that help credit unions find new members seeking to buy their first homes and provide financial counseling that helps members keep their homes.

“I think we need to work together in a more concerted way,” Merced told credit union officials. “We each have strengths that will allow us to fulfill our mission as well as each other’s mission.”

Presentations from PALs panelists are posted on the Internet. From www.ncua.gov, click “PALs,” then click “Workshop Presentations.”



July 7, 2005 Baltimore, Md. — Co-hosts of the PALs workshop in Baltimore include (from left to right) Virginia and D.C. CU League President Rick Pillow, Maryland CU League President Mike Beall, NCUA Board Member Debbie Matz, National Federation of CDCUs Executive Director Cliff Rosenthal, Pennsylvania CU Association President Jim McCormack, and National Association of FCUs CEO Fred Becker.



July 7, 2005 Baltimore, Md. — In a question-and-answer session, Marty Gruenberg, senior counsel for the Senate Banking Committee, urges credit unions to provide overdraft lines of credit rather than “courtesy pay” programs in order to offer more affordable alternatives to payday lending.



Access Across America

"Creating Economic Empowerment for all Walks of Life"

Two Access Across America Economic Empowerment Summits scheduled for fall

NCUA Chairman JoAnn Johnson said the agency will host Access Across America Economic Empowerment Summits this fall in Tennessee and Texas. Each free, one-day event will focus on federal resources available to credit unions.

The Nashville Summit is scheduled **Tuesday, September 20** at the Nashville Doubletree Hotel. Credit unions in Alabama, Florida, Georgia, Indiana, Kentucky, Mississippi, North Carolina, Puerto Rico, Ohio, South Carolina, Tennessee and Virgin Islands are invited to attend.

The Dallas Summit is scheduled **Wednesday, October 12** at the Omni Mandalay Hotel in Las Colinas. Credit unions in Arizona, Arkansas, Kansas, Louisiana, Missouri, Oklahoma and Texas are invited to attend.

"NCUA is pleased to announce these fall Summits to bring together public and private sector partners to discuss economic empowerment and financial self-sufficiency," said Chairman Johnson. "Credit unions are instrumental in providing access to affordable financial services to the

underserved and these summits will provide many credit union leaders the opportunity to learn about a host of programs and services available to assist them meet financial service goals."

Access Across America was established to promote and facilitate the extension of affordable financial services to individuals and communities across America, and Access Across American Summits are designed for credit union officials, as well as board volunteers. The goal is to enhance credit unions abilities to expand financial services to their members by partnering with other federal agencies and non-profit organizations.

Access Across America partners with federal agencies to develop opportunities to aid credit unions with the technical resources and finances to provide needed services in underserved areas. Participating agencies include the Departments of Agriculture, Health and Human Services, Housing and Urban Development, and Treasury. Also presenting will be the Export-Import Bank of the United States,

Small Business Administration, and the Federal Trade Commission.

Session topics will include member business lending, health savings accounts, identity theft, homeownership, serving emerging markets and the underserved, and financial education.

For more information, or to register for the free summits, please see NCUA's website at www.ncua.gov or e-mail AccessAcrossAmerica@ncua.gov.

Participants are responsible for their own travel accommodations. Please contact the hotels directly to make reservations:

Tennessee - September 20

Doubletree Hotel Nashville
315 4th Avenue North
Nashville, TN 37219-1693
Phone: (615) 244-8200

Texas - October 12

Omni Mandalay Hotel at Las Colinas
221 East Las Colinas Boulevard
Dallas (Irving), TX 75039
Phone: 972-556-0800

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